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Revision of Trade and Tariff Policy

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REVISION OF TRADE AND TARIFF POLICY

PRESIDENT KENNEDY is preparing for a battle over foreign trade policy whose outcome may be of momentous significance to the United States and to a large part of the free world. At his news conference November 29, the President confirmed his intention to "go to the Congress in January," following consultations soon to take place with legislators bearing responsibility in the field, to propose a program to revise methods of handling trade and tariff relations with other countries.

It is no secret that the administration wants a far-reaching liberalization of the tariff-making authority delegated to the Chief Executive by the Reciprocal Trade Agreements Act, which is due to expire by limitation next June 30. Because broadened powers to reduce customs duties will be sought at a time when support for increased tariff protection of domestic industries has been on the rise, a bitter fight over the administration's proposals is unavoidable.

Kennedy's Stand in Looming Tariff Struggle

The President denied at his news conference that the administration had any thought of proposing formal association of the United States with the European Economic Community or Common Market.

> What we are concerned about [he said] is that we have the power to negotiate with the Common Market to protect our export industry. Now, the Common Market will represent a tremendously important market for American production . . . a tremendous potential for us in the future, particularly when Great Britain joins it. . . . Therefore, we have to have the ability to negotiate with the Common Market so that American goods can enter the market.

Kennedy explained that, because the United States was running a deficit in its over-all balance of international payments, it was essential that the country maintain or improve its present favorable balance in merchandise trade. "If we're not able to export substantially more than we import," he warned, "we're going to either have to cut off all

assistance to countries abroad or begin to withdraw our troops home."

To be in position to obtain worth-while concessions from such a powerful trading group as the Common Market, the administration is expected to ask authority of Congress to negotiate across-the-board duty reductions on groups of products in place of the present authority to negotiate only on an item-by-item basis. It has been reported that power will be sought to lower duties by as much as 50 per cent and to transfer specified products from the dutiable to the free list. Elimination of the existing so-called peril point and escape clauses also may be requested. The program is believed to call for delegation of powers for a period of five years, instead of the three-year period that has been customary. Provisions for "adjustment assistance" to industries, workers and communities seriously injured by increased import competition probably will cap the proposals.

There is no question about the intensity of the legislative struggle in prospect on a program of this kind. Opinion on Capitol Hill has appeared to be veering toward narrowing rather than broadening the President's tariff-bargaining powers. It has not even been certain that the Trade Agreements Act, put on the statute books in the second year of the F. D. Roosevelt administration and since then renewed 11 times, would receive a twelfth lease on life. From the very beginning, the act has been a source of friction between the Executive Branch and the Legislative Branch. The President has tended to employ it primarily as an instrument of foreign policy, while many members of Congress have adhered to the view that the interests of domestic industries should be paramount in tariff-making.

Pressure for Bold Departure in Tariff Policy

Influential figures in both major political parties have nevertheless voiced support of more liberal tariff legislation. Christian A. Herter, Secretary of State in the latter part of the Eisenhower administration, and Will Clayton, Under Secretary of State in the Truman administration, have jointly advanced the opinion that present law is "hopelessly inadequate to meet conditions as they are and as we can see them developing." Herter and Clayton went so far as to assert, in a report submitted to a House subcommittee Nov. 1, that "The United States must form a

trade partnership with the European Common Market and take the leadership in further expanding a free world economic community." They recommended, as a "minimum step" in that direction, that the President be armed with authority to negotiate across-the-board tariff cuts, for "Our allies in Europe are no longer dealing in item-by-item terms, and we must adapt our negotiating authority accordingly."

Howard C. Petersen, special presidential assistant in charge of formulating a new international trade program, said in a speech last summer before a section of the European Committee for Economic and Social Progress:

> I think there is a growing realization in the United States of a deficiency in the Reciprocal Trade Agreements procedure that is reducing enthusiasm for the program. The trouble lies with precisely that feature of the process that makes it seem so sweetly reasonable. We will consider every case on its merits, and make [tariff] reductions in those cases where the gains exceed the losses. This is one of those instances where to consider every case on its merits is to disregard the merits of the case. For the arguments against tariff reduction are primarily arguments about particular cases, whereas the arguments for tariff reduction are arguments about the tariff in general. To put the decision in the arena of particular cases is to stack the deck against reduction.[1]

A.F.L.-C.I.O. President George Meany on Nov. 28 told a special conference on world trade, held under the auspices of the International Association of Machinists, that broader and more flexible tariff-making powers must be put in the hands of the President "if this country is to maintain its trade position in the world and maintain its economic welfare at home." Under Secretary of State George W. Ball had warned in an address at the National Foreign Trade Convention in New York, Nov. 1:

> If at this late date we should yield to the importunings of those who would shelter the low-wage industries in our economy and penalize the most efficient, let us be clear about the consequences. We would set off a chain reaction of retaliation that would do irreparable harm to the whole free world, but would hurt us most of all. We would give up any claim to a role of leadership in the free world. We would deny the strength and vitality of the economic system for which we stand.

Opponents of liberal trade legislation have not yet organized a concerted campaign against the administration position. Once that position is made public in detail, however,

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[1] Quoted in *Congressional Record*, Sept. 6, 1961, p. A7008. Petersen, a Republican, served as Assistant Secretary of War from December 1945 to July 1947.

they may be expected to attack in force. Meanwhile, individual protests have given an indication of what is to come. Rep. Frank T. Bow (R Ohio), who favors return of tariff-making authority to Congress, asserted on Nov. 6 that the administration was drawing up a "blueprint for complete government control of the American economy." He contended that supporters of lower tariffs would "encourage foreign competition, . . . establish a federal economic program for the control and direction of injured industries and a kind of super training and employment agency for the displaced men and women."

Factors in President's Decision to Launch Fight

Reasons for the President's decision to enter into a fight over foreign trade policy in an election year are not hard to find. Political prudence would seem, at first glance, to dictate postponement of the battle until 1963. But if the traditional pattern of mid-term elections—a loss of seats by the party in power—prevails next November, the 88th Congress might prove even more protection-minded than its predecessor.

A desire to put new life into the sluggish domestic economy may also have influenced the President's decision. Efforts by the administration to reduce the level of unemployment and to wipe out the net deficit in the international balance of payments[2] have had little effect to date. It is the administration's contention, disputed by protectionists, that lowering of American barriers to imports would lead to an increase in the volume of exports sufficient to produce a net gain in employment and a healthier balance-of-payments position. Failure to solve the payments problem, as the President noted at his Nov. 29 news conference, would force a reduction in expenditures for foreign aid and military assistance—programs deemed vital to national security.

Need to Take Up Challenge of Common Market

The growing strength of the European Economic Community no doubt carried most weight in the administration's decision to seek broadened tariff-making powers. The combined gross national product of the six Common Market countries[3] increased by 7 per cent between 1959

[2] The Commerce Department reported, Nov. 13, that the payments deficit rose to an annual rate of more than $3 billion in the third quarter of this year.

[3] Belgium, France, Italy, Luxembourg, Netherlands, West Germany.

and 1960, while that of the United States rose by only 2.7 per cent. If Great Britain becomes a member of E.E.C., the bloc will have economic power greater than that of either the United States or the Soviet Union. The Common Market, with Britain as a member, would have a population of 222 million persons, compared with 215 million in the Soviet Union and 185 million in the United States. This year the six E.E.C. countries plus Britain will produce more than 112 million tons of steel, as against 78 million tons in the Soviet Union and perhaps less than 100 million tons in the United States.

Great Britain's entry into the Common Market would in all likelihood be followed by that of her six partners in the European Free Trade Association or Outer Seven.[4] In a joint declaration made at Geneva, July 31, EFTA members put their stamp of approval on Britain's application for E.E.C. membership and stated: "All member states of EFTA declare their intention to examine with the European Economic Community, the ways and means by which all members of EFTA could take part together in a single market embracing 300 million people." Such a market, including most of the nations of Western Europe, would be far and away the world's largest trading unit. President Kennedy said at a news conference on Nov. 8: "One-third of our trade generally is in Western Europe. If the United States should be denied that market, we will either find a flight of capital from this country to construct facilities within that wall, or we will find ourselves in serious economic trouble."

Demonstration of Bargaining Difficulties

The wall to which Kennedy referred is the common tariff which the European Economic Community will maintain against imports from non-member countries. In the round of negotiations which began last summer among members of the General Agreement on Tariffs and Trade, the United States received its first indication of the difficulties involved in striking a tariff bargain with the Common Market. E.E.C. offered an across-the-board reduction of 20 per cent from present duty levels on nearly all non-agricultural products,

[4] Austria, Denmark, Norway, Portugal, Sweden, Switzerland. Neutral Austria, Sweden and Switzerland presumably would seek to become associate, not full, members of E.E.C. EFTA differs from E.E.C. in that member countries are allowed to retain their own tariffs on imports from outside countries, whereas E.E.C. countries will in time have a single external tariff. Both associations provide for progressive reduction of tariffs among member countries. See "Britain, the United States and the Common Market," *E.R.R.*, 1961 Vol. II, pp. 530-531.

provided other nations made similar concessions. The United States objected that the offer was not across-the-board at all, in that it excluded major agricultural products and certain other items such as aluminum. The excluded goods, American negotiators pointed out, accounted for at least one-third of this country's exports to the Common Market.

In its final offer, not yet announced, the Common Market is expected to hold out possibility of automatic tariff reductions on specified products, many of which are subject to high duties when imported into the United States. Under this plan the proposed 20 per cent tariff reduction on the affected items would automatically come into force for goods entering the Common Market from this country as soon as the United States was able to offer an equivalent reduction of its own. Any such action naturally would have to await congressional approval of a fresh grant of tariff-cutting power to the President.

Without authority to negotiate across-the-board tariff reductions, the United States might find future tariff bargaining with the Common Market virtually impossible. Item-by-item bargaining has proved to be cumbersome and time-consuming, and E.E.C. is not likely to adjust its negotiating procedures to accommodate the United States. It is asserted also that new trade legislation must have a minimum life of five years to give the President sufficient leeway in making long-term trade arrangements with other countries.[5]

Re-evaluation of American Trade Relationships

Beyond the immediate question of tariff policy revision lies a possible decision regarding the future relationship of this country with the Common Market. There have been suggestions that the United States follow Britain's example and apply for membership in E.E.C. Opinion in Europe, however, appears to be against such a move. William Rees-Mogg, economic and political editor of the *Sunday Times* of London, has asserted that "Americans are still grossly underestimating the extent to which the Common Market is inspired by a sense of political and economic rivalry with the United States."

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[5] The four-year renewal of the Trade Agreements Act voted in 1958—the longest in the history of the legislation—followed a succession of three-year and one-year renewals and a single two-year renewal (in 1943).

> The Common Market is not anti-American, but it is opposed to the predominance of American influence. . . . Europe will not be ready to negotiate with the United States until she has reached a position of equality, and will not be anxious to negotiate until she has reached a position of advantage. . . . The independence of Europe, from America and Russia, has now become a theme to which both the Russians and the Americans are going to be asked to dance.[6]

Opinion in the United States on Common Market membership has not been probed but may be assumed to be unfavorable. The Treaty of Rome, which established the European Economic Community in 1957, requires its members to coordinate their fiscal, monetary and labor policies as well as to unify tariff policies.[7] A provision calling for free movement of labor among member countries would in itself probably prevent American adherence to the Common Market treaty.

In assessing its trade relations with the Common Market, the United States has to take into account not only the interests of Western Europe but also those of American trading partners in Asia and Latin America. Japan, object of world-wide tariff discrimination, is of particular concern to this country. No less than 15 nations have reserved the right, under a GATT escape clause, to deny most-favored-nation treatment to Japan. Protectionists in the United States have called for strict quotas on imports of Japanese textiles, despite the fact that Japan since 1957 has voluntarily limited shipments of cotton cloth to this country.

Continued discrimination against Japanese products, it is argued, might lead to establishment of close economic and political ties between Japan and Communist China. If that should happen, "there would result a profound shift in the power balance in Asia, with grave results for the United States position in that part of the world." [8] To forestall any such development, United States officials reportedly have discussed with Canada and Japan the possibility of forming a Pacific Community along the lines of E.E.C. Membership would be limited at the outset to the aforementioned countries but might later include Australia and New Zealand.

[6] Quoted in *Washington Post*, Nov. 13, 1961, p. A23.

[7] See "European Trade Blocs and American Exports," *E.R.R.*, 1960 Vol. I, p. 201.

[8] Warren S. Hunsberger, Johns Hopkins University economist, in a report submitted to the Joint Congressional Subcommittee on Foreign Economic Policy, Nov. 25, 1961.

It is not unlikely that the United States will associate itself in some way with the members of the Latin American Free Trade Area[9] and of the Central American Common Market.[10] Some such arrangement might be urgently needed if E.E.C. gives preferential tariff treatment to former European colonies in Africa, many of which produce raw materials and agricultural commodities similar to those exported by Latin American countries.

Lowering of U.S. Tariff Bars Since 1934

THE UNITED STATES itself has been described as the first common market. The Constitution gave Congress sole power to "lay and collect . . . duties" and "to regulate commerce with foreign nations." Between 1890 and 1930 Congress delegated certain tariff-making powers to the President, usually for the purpose of facilitating negotiation of reciprocity agreements with foreign countries. These powers proved to have little practical value, however, for in most cases Congress either narrowly restricted the limits within which they might be exercised or reserved to itself the right to approve or disapprove the agreements concluded under them.

The years 1890-1930 were in general a period of rising tariffs. The Underwood Act, adopted at the outset of the Wilson administration in 1913, reduced duties all along the line, but legislation enacted under Republican auspices before 1913 and in 1921 and 1922 imposed high duties to shield American industry from foreign competition. Protectionism reached its high-water mark in the 1930 Hawley-Smoot Act, product of 15 months of lobbying and logrolling. Advocates of liberal trade policies have asserted that the tariff walls erected by that law blocked the flow of international commerce in the early 1930s and thus helped to prolong the Great Depression. Moreover, the act seemed to demonstrate once and for all the impracticality of fixing customs duties through ordinary legislative processes in a country grown as large and diverse as the United States.[11]

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[9] Argentina, Brazil, Chile, Mexico, Paraguay, Peru, Uruguay.

[10] Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua.

[11] See "The Tariff Power," *E.R.R.*, 1945 Vol. I, pp. 352-357, and "Foreign Trade Policy," *E.R.R.*, 1958 Vol. II, p. 88.

NEW DEAL'S RADICAL INNOVATIONS IN TARIFF POLICY

When the Roosevelt administration took office in 1933, with large Democratic majorities in both House and Senate, it made no attempt to obtain reduction of the high protective rates of the 1930 tariff by methods employed in the past. At the urging of Secretary of State Cordell Hull, it chose a different approach. The Reciprocal Trade Agreements Act of 1934 delegated tariff-making authority to the President, within stipulated limits, for a period of three years. The President was authorized to enter into agreements with foreign countries providing for reduction of Hawley-Smoot duties by as much as 50 per cent, and for additional concessions, in return for equivalent concessions by the other contracting parties. The agreements were not subject to approval by Congress. In a special message to Congress, March 2, 1934, Roosevelt asserted that speed and certainty were vital to the success of tariff bargaining with other countries: "A promise to which prompt effect cannot be given is not an inducement which can pass current at par in commercial negotiations."

The Trade Agreements Act was renewed periodically for a decade without any major change. When the law was extended for the fourth time in 1945, Congress increased the President's bargaining authority by designating tariff levels of Jan. 1, 1945, as the base for future 50 per cent reductions. The extension acts of 1955 and 1958 authorized rate cuts of 15 per cent below the tariff levels of Jan. 1, 1955, and 20 per cent below those of Jan. 1, 1958, respectively, in annual stages of 5 per cent. Duties cut to the maximum under these successive provisions would be down to a level equivalent to only 17 per cent of the original Hawley-Smoot rates by June 1962.

Through 1946, the United States had entered into reciprocal trade agreements with 29 countries. Although the agreements were negotiated on a bilateral basis, the agreed concessions were not limited to the trade of the signatory countries. The underlying aim of the reciprocal tariff policy was to help free international trade of depression-inspired restrictions that were clogging the movement of goods. In keeping with that aim, the Trade Agreements Act stipulated that American duty reductions granted under an agreement with any nation should apply on like imports from any other nation which did not discriminate

against commerce of the United States. Concessions were made advantageous to a particular country by choosing for bargaining those commodities of which it was a principal supplier. Thus while the benefits went primarily to the countries making the trade agreements, extension of the benefits to all countries tended to lower trade barriers generally.

Early Experience With Reciprocal Trade Pacts

The question of whether or not reciprocal trade agreements have increased the flow of trade is difficult to answer. Because the program was initiated at a time when foreign commerce was at a low ebb, it was to be expected that trade totals would rise in any event. Such over-all increases had in fact begun before the first trade agreements were concluded. Almost as soon as the early agreements went into effect, however, it was found that in most cases American exports to and imports from the affected countries picked up faster than the trade with other countries.

The State Department cited figures showing that United States exports to trade agreements countries, on the basis of annual averages for 1938 and 1939 compared with 1934 and 1935, increased by 63 per cent as against an increase of only 32 per cent for exports to non-agreement countries. The same compilation showed an increase of 22 per cent in United States imports from trade agreements countries as against an increase of only 12.5 per cent for imports from non-agreement countries. In a 1948 study of the reciprocal trade program, the Tariff Commission concluded that general recovery factors were more important than the trade agreements in bringing about the prewar increase in exports and imports, but that statistical data lent support to the conclusion that the agreements were a contributing influence.

Restrictions on President's Tariff-Making Power

The Trade Agreements Extension Act of 1948, adopted during the Republican 80th Congress, contained the first major limitation on the President's tariff-making authority. The law required the President to submit to the Tariff Commission, in advance of negotiations, a list of products for which duty reductions were proposed. The commission was then to recommend the minimum tariff rates, or "peril

points," which in its opinion were necessary to protect domestic producers. Although the President was not bound by the commission's recommendations, he was required to give Congress his reasons for approving any duty reductions below peril point levels.

Inclusion of an escape clause in all trade agreements had been made mandatory by executive order of President Truman in February 1947. The requirement was written into the statute itself in 1951, and the scope of the provision was considerably broadened in 1955 and 1958. The Tariff Commission was then authorized to consider complaints from any segment, however small, of a domestic industry and to determine whether it was substantially threatened by increased imports. If the commission so found, it was required to recommend to the President the duty changes needed to remove the threat. It was left to the President, taking into consideration the broad interests of the United States, to decide whether to order the changes. A so-called national security clause, authorizing the President to raise duties or establish quotas on imports found by the Office of Defense Mobilization[12] to endanger industries vital to the security of the United States, was incorporated in the law in 1955. President Eisenhower invoked this authority, March 10, 1959, in imposing curbs on oil imports.

Applications for relief under the escape clause numbered 130 through November 1961. In 40 of the cases the Tariff Commission, or three of its six members, found injury to a domestic industry. In 13 cases[13] the President increased duties, but in 23 cases[14] he rejected the recommendations of the Tariff Commission, which by law can consider only the question of injury to domestic producers. Factors which influenced the President to let existing duties stand included, in one case or another, the small number of workers employed in the affected industry, possibilities for diversification of production, existence of competitive factors in addition to imports and, above all, the effect of tariff increases on relations with other countries.

[12] Functions of O.D.M. were transferred in 1958 to a newly created Office of Civil and Defense Mobilization. When President Kennedy assigned responsibility for civil defense to the Defense Department, July 20, 1961, administration of the national security clause was left with the Office of Emergency Planning, a remnant of the former O.C.D.M.

[13] Hatters' fur, dried figs, alsike clover seed, watches, bicycles, toweling, spring clothespins, safety pins, clinical thermometers, lead and zinc, stainless-steel table flatware, cotton typewriter-ribbon cloth, women's fur felt hats and hat bodies.

[14] The President has not yet announced a decision in four cases: baseball gloves and mitts, ceramic mosaic tiles, carpets and rugs, and cylinder, crown and sheet glass.

Postwar Trend Toward Multilateral Agreements

The postwar trend toward formation of regional economic blocs has resulted in a shift from bilateral to multilateral trade bargaining. Machinery for such bargaining was created with the signing at Geneva, Oct. 30, 1947, of the General Agreement on Tariffs and Trade. Bargaining sessions among GATT nations, now numbering 37, have been conducted periodically on a country-by-country and product-by-product basis. The procedure has been to combine bilateral agreements hammered out at such sessions into a single multilateral pact that includes general provisions on trade practices and related matters.

Despite GATT's success in bringing about a general reduction of tariff barriers, the machinery is now considered in need of overhauling. At the opening session of a recent GATT conference at the ministerial level, U.S. Under Secretary of State Ball proposed that member countries study the possibility of employing across-the-board tariff cuts in future negotiations. Ball's proposal was incorporated in a seven-point trade program, drafted by the United States, which the ministers approved in a communiqué issued at the close of the meeting on Nov. 30.[15]

The program endorsed by the ministers was consistent with the expressed aims of the Organization for Economic Cooperation and Development.[16] The convention creating O.E.C.D., signed in Paris last Dec. 14, declared one of the organization's goals to be "expansion of world trade on a multilateral, non-discriminatory basis." To this end, the convention provided for creation of machinery to formulate common aid, trade and monetary policies. O.E.C.D. members reached agreement in Paris, Nov. 16, on a program to increase their aggregate gross national product by 50 per cent within a decade—a goal considered essential to reach if the Western world is to remain economically stronger than the Communist bloc. Such expansion may be difficult to achieve, however, unless the participating countries—most of which are heavily dependent on ex-

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[15] Other points in the program called on GATT members to open their markets to products from underdeveloped countries and to encourage the growth of industry in those countries. The ministers agreed also that early removal of article 35 of the GATT agreement, under which signatory countries may deny most-favored-nation treatment to Japan, "would add greatly to the effectiveness" of GATT policies.

[16] O.E.C.D. is the successor to the Organization for European Economic Cooperation, which was established in 1948 in conjunction with the European Recovery Program (Marshall Plan). O.E.C.D.'s members include the 18 European countries that belonged to O.E.E.C., plus the United States and Canada.

ports[17]—are able to negotiate extensive across-the-board tariff reductions through GATT.

Clash of Views on Foreign Trade Policy

PROTECTIONISTS appear today to be in their strongest position in Congress in years. Rep. Noah M. Mason (R Ill.), ranking minority member of the House Ways and Means Committee, said on Nov. 9 that he doubted that Congress would agree to any broadening of the President's tariff-making powers at its 1962 session—there would be "a devil of a fight" over even a simple extension of the Trade Agreements Act.

A protectionist amendment to a minimum wage bill, offered last April 19 by Sen. Barry Goldwater (R Ariz.), would have empowered the President to impose duties or quotas to protect any domestic industry which, in the opinion of the Secretary of Labor, was being harmed by imports from a country with low wage levels. The amendment was rejected by a vote of 55 to 38, but several senators who voted against it explained that they did so only because they feared the amendment might endanger passage of the bill itself.

While high-tariff men in Congress are strong numerically, they lack effective leadership. Each time the Trade Agreements Act has come up for renewal since World War II, the protectionists have had powerful spokesmen on Capitol Hill. In past years that part was played by Reps. Daniel A. Reed (R N.Y.) and Richard M. Simpson (R Pa.) and by Sen. Eugene D. Millikin (R Colo.). But all of these men are now dead, and so far no one has taken their place. Perhaps the most outspoken advocate of protection in Congress at present is Rep. John H. Dent (D Pa.), chairman of a House subcommittee on the impact of imports on employment. However, Dent's influence is limited by the fact that he is not a member of the Ways and Means Committee, which handles tariff legislation in the

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[17] According to the September 1960 issue of *International Financial Statistics*, exports account for no less than 33.5 per cent of the gross national product of the Netherlands, and for 20 per cent or more of the gross national products of Belgium, Luxembourg, Denmark and Switzerland. By contrast, only 3.7 per cent of the gross national product of the United States is attributable to exports.

House. Mason, despite Ways and Means membership, is for various reasons considered a doubtful candidate for leadership of the protectionist forces.

Protectionism cuts across both party and regional lines. The Democratic South, formerly a low-tariff stronghold, has become increasingly protectionist-minded as industry has gained importance in its economy. High-tariff sentiment likewise has been growing in certain sections of the labor movement. Clothing and electrical workers' unions, disturbed by the effect of imports on employment, last spring threatened to boycott foreign goods to demonstrate their concern.[18] Industry, however, is the wellspring of opposition to liberal trade policies. Textile and clothing manufacturers, who employ a total of 2.2 million persons, supply the bulk of this opposition. Smaller companies which favor import restrictions include segments of the electrical equipment and chemical industries and producers of lead and zinc, pottery and glassware, carpets, sporting goods and pianos.

Protectionists maintain that the present trade policy almost always works to the disadvantage of domestic producers. Tariff reductions, they contend, are urged upon the President by the State Department in order to achieve specific foreign policy objectives. American markets then are flooded with low-cost merchandise made by "cheap foreign labor." The chairman of the Nationwide Committee on Import-Export Policy, a protectionist organization made up of industry, labor and agricultural groups, said in a statement issued Nov. 2: "Drastic [United States] tariff reductions, astounding foreign productivity gains, and the resultant withering import competition are fueling a domestic drive for automation, putting a damper on desired domestic industrial expansion and driving American investment abroad."

To remedy this situation, protectionists have advocated, at one time or another, return of tariff-making to Congress; termination of the President's authority to disregard Tariff Commission proposals for duty increases in escape clause cases; a moratorium on further tariff cuts; and a ban on imports produced at wage scales lower than those maintained by domestic producers. It remains to

[18] See "Rising Protectionism," *E.R.R.*, 1961 Vol. I, pp. 248-251.

be seen whether high-tariff supporters will urge such measures next year or whether they will chart an entirely different course in combating the administration's new trade and tariff proposals.

Case for Further Liberalization of Trade Policy

Persons favoring lower tariffs assert that protectionist measures would be self-defeating in the long run. Shielding of domestic industries from import competition, they argue, would dull incentives to cut costs and improve production methods. Nations adversely affected by closing of the American market would levy retaliatory duties against U.S. products. High protective tariffs thus would inevitably lead to a sharp decrease in American sales abroad and to higher prices and widespread unemployment at home. Eric A. Johnston has foreseen other results: "[Economic] isolationism would accelerate the trend toward mergers and giantism in business and industry. It would give rise to permanent government subsidization of industries. We would see greater governmental direction and control of the private sector of our economy." [19]

Low-tariff advocates concede that reduction or outright removal of trade barriers would cause economic dislocations, but they insist that such hardships would not be so severe or as long-lasting as protectionists allege and that the effects would be felt in the main only by inefficient producers. They assert also that the protectionist contention that American industry cannot compete with foreign goods produced at low wage scales is fallacious. *Labor Costs and International Trade,* a booklet issued last summer by the Committee for a National Trade Policy, said that wages were highest in those American industries which export most successfully. So long as American productivity remains high, the argument goes, unit costs will remain low enough to be competitive in world markets. As to the effect of imports on employment, a special staff report submitted to the Senate Commerce Committee, June 26, estimated that no more than 200,000 workers—less than one-half of 1 per cent of the labor force—would lose their jobs if this country suspended all tariffs for a three-year period.

It has been asserted that a lowering of trade barriers

[19] Eric A. Johnston, "We Must Join the Common Market," *New York Times Magazine*, Nov. 12, 1961, p. 114.

would act as a multiple stimulant to business activity. Consumers, supplied with a greater variety of lower-priced goods, would find their purchasing power increased. Industry could then boost production and create more jobs.

Above all, as noted, a low-tariff policy is considered necessary to meet the challenge of the Common Market. Trade with Western Europe currently accounts for about 30 per cent of the exports of the United States and for 25 per cent of its imports. Application of broad protectionist measures could be expected sharply to reduce this country's foreign trade and thereby to aggravate chronic balance-of-payments and unemployment problems. And an increasing number of American manufacturers probably would be encouraged to establish branch plants in Western Europe to gain access to what will ultimately be a wholly tariff-free trading area. The Chase Manhattan Bank has estimated that 326 American companies invested more than $1.2 billion in new operations in Western Europe between January 1958, when the Treaty of Rome went into effect, and May 1960.[20]

There is every indication that Rep. Hale Boggs (D La.), fourth-ranking majority member of the Ways and Means Committee, will lead the fight in Congress for a liberal trade law. In recent weeks the congressional Joint Economic Committee's subcommittee on foreign economic policy, of which Boggs is chairman, has become a forum for low-tariff advocates. The subcommittee's current hearings on trade policy were preceded by release of a series of reports,[21] all calling for adoption of liberal trade and tariff measures. Boggs has termed the Trade Agreements Act "hopelessly inadequate" and has asserted that next year's fight over trade legislation "won't be any easier [than it was in 1958], but it can be won." [22]

Public Aid for Exporters and Injured Industries

With so much at stake at home and abroad, it is not unlikely that trade legislation adopted by Congress next

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[20] "To a large extent the choice faced by the American executives who decided to set up [foreign] branches was not whether to make the goods here or there, but whether to make them there or not make them at all. If they tried to make them here and ship them out, they were pretty sure someone else would start to make them there sooner or later, providing destructive competition."—George Shea, *Wall Street Journal*, Sept. 12, 1960, p. 1. See "American Manufacturing in Foreign Countries," *E.R.R.*, 1959 Vol. I, pp. 469-472.

[21] The Herter-Clayton report was the first to be released.

[22] Bernard D. Nossiter, "Tariffs and Trade: The Decision Must Be Made," *The Reporter*, Dec. 7, 1961, p. 34.

year will contain compromises calculated so far as possible to satisfy both protectionists and the exponents of freer trade. President Kennedy himself has advanced proposals to aid the perennially ailing textile industry. An assistance program given publicity last May included an indication that future applications by textile manufacturers for relief under the national security or escape clauses of the Trade Agreements Act would receive a favorable hearing. Two months later, a 16-nation conference at Geneva accepted an American plan for freezing textile import levels for a 12-month period. And in September, U.S. negotiators succeeded in limiting Japanese exports of cotton textiles to this country to an increase of 8 per cent; Japan had sought a 30 per cent increase.

The President has acted also to strengthen the position of American exporters. A program of loan insurance, designed to protect exporting companies against the risks of expropriation, civil strife and currency restrictions, was announced last Oct. 27. Policies will be underwritten by the Foreign Credit Insurance Association, composed of 21 major insurance companies, and the Export-Import Bank. At the same time, Kennedy authorized the Export-Import Bank to guarantee short and medium-term loans made by commercial banks to finance export transactions. "The objective of both programs," the President said, "is to assure that United States exporters will not lose sales because of a lack of credit facilities where the extension of credit is appropriate."

Assistance to domestic industries hurt by increased imports is contemplated if the President receives authority to negotiate across-the-board tariff cuts. Among the measures the administration reportedly has in mind are:

Low-interest loans to industries especially hard hit by import competition. The loans would finance equipment used to improve existing products or to manufacture new products.

Establishment of labor retraining programs in which management, government and labor would participate.[23]

Technical assistance for economic development programs carried out by local government, management, labor and universities.

Granting of amortization and depreciation concessions, and stimulation of new investment in problem areas.

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[23] This measure apparently would either complement or expand the labor retraining program set up by legislation enacted last Aug. 23. That law provided for expenditure of $655 million over four years to retrain unemployed and underemployed workers.

Low-tariff supporters contend that government assistance of these kinds would be needed for only a short time and by only a few companies. As soon as American industry adjusts to a greater volume of imports, it is argued, all need for such aid will disappear. Protectionists maintain, on the other hand, that government assistance programs tend to be self-perpetuating. They envision a steadily increasing amount of government aid, with public ownership of many industries likely to be the outcome.